

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

North Shore Gas Company)	
)	ICC Docket No. 11-0280
Proposed General Increase in Natural Gas Rates.)	
)	consolidated with
The Peoples Gas Light and Coke Company)	
)	ICC Docket No. 11-0281
Proposed General Increase in Natural Gas Rates.)	

**REBUTTAL TESTIMONY OF
VINCENT A. PARISI**

General Counsel, Interstate Gas Supply of Illinois, Inc.

On behalf of Interstate Gas Supply of Illinois, Inc.

August 15, 2011

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1 I.

2 **INTRODUCTION AND OVERVIEW**

3 **Q. Please state your name and title.**

4 A. Vincent Parisi, General Counsel and Regulatory Affairs Officer for Interstate Gas
5 Supply of Illinois, Inc. (“IGS”).

7 **Q. Are you the same person who provided Direct Testimony in this proceeding
8 on behalf of IGS?**

9 A. Yes. My Direct Testimony explained (1) how a Purchase of Receivables or
10 “POR” program would level the competitive playing field in the markets of
11 Peoples and North Shore Gas (the “Companies”); and (2) the need to apply
12 appropriate cost causation principles to the Companies’ administrative fees.

14 **Q. What is the purpose of your Rebuttal Testimony?**

15 A. My rebuttal testimony addresses three topics: (1) a further explanation of the
16 advantages of a Purchase of Receivables program; (2) the imperative that the

Commission ensure a fair allocation of charges that currently comprise administrative fees charged by the Companies; and (3) the need for the Commission action to address the inequities that result from the Companies' support for the pipeline warranty program offered by the Companies' unregulated affiliate.

Q. What are your general conclusions?

A. My general conclusions are as follows:

1. **Purchase of Receivables.** Based on the testimony of Companies' witnesses Mr. Schott and Mr. McKendry, it appears that the Companies have fundamental misunderstandings of the benefits and protections afforded by a properly designed POR program. This testimony briefly addresses the Companies' apparent misunderstandings. However, as explained in my Direct Testimony, IGS does not recommend a POR program be implemented in this proceeding without utility support for such a program. This in no way impacts IGS' belief in the value of such a program. Given the Companies' current position on POR, the time constraints inherent in rate case proceedings, and IGS's desire to work with the Companies to construct a workable POR program, IGS is withdrawing its request that a POR program be developed in this docket. In so doing, it becomes even more vitally important that the Commission require accurate allocation and/or recovery of costs in a manner that levels the competitive playing field for the Companies and ARGs to the maximum extent possible.
2. **The Companies should appropriately account for and allocate the Companies' administrative fees.** Administrative fees represent a key area where costs are not accurately allocated by the Companies -- indeed, there is an obvious inconsistency in how the Companies currently allocate administrative fees. On one hand, administrative fees related to Choices For You costs are strictly allocated only to Choices For You customers.. On the other hand, Choices For You customers must also pay administrative fees related to costs not caused by Choices For You customers. This inconsistent approach results in overcharging Choices For You customers for costs that they simply do not cause, which results in an inappropriate subsidy to the Companies' sales customers. There are at least two ways in which the Commission can equitably remedy this issue:

- 54 a. **Ideally, the Companies would fully itemize the costs that are**
 55 **included in all the administrative fees, and allocate the costs**
 56 **caused by sales customer and Choice For You customers to**
 57 **each class respectively.** This may result in a need for separate
 58 rates for each class of customers, to ensure that each class pays
 59 for only those items directly attributable to that class..
- 60 b. **A simpler, more practical solution would be to eliminate the**
 61 **Choices For You (and Transportation) administrative fees**
 62 **entirely and recover those costs through base rates.** This
 63 approach is based upon the premise that all customers who have
 64 the opportunity to take advantage of the Choices For You
 65 program can at anytime select the program; since not all costs are
 66 directly aligned with cost causers, a separate charge is not needed
 67 for the Choices For You administrative items. This approach
 68 should apply for Transportation customers as well, to ensure that
 69 they do not pay twice for any administrative costs. This
 70 approach would ensure consistency in charges among all
 71 customers. This approach is particularly appropriate here, since
 72 the Companies have failed to provide detailed cost information
 73 so far, and at this relatively late stage in the proceeding it would
 74 be prejudicial to the Staff and Intervenors to allow the
 75 Companies to present that information without a corresponding
 76 opportunity for Staff and Intervenors to respond through
 77 testimony.
- 78 3. **The Companies should not be allowed to skew the market to**
 79 **advantage their affiliate in the sale of warranty products.** In response
 80 to Staff witness Mr. Sackett and Companies' witness Ms. Gregor, IGS
 81 applauds the ongoing discussion about setting the "rules of the game" so
 82 that the Companies' affiliate that offers a pipeline warranty program
 83 competes on an even playing field with non-affiliates offering similar
 84 products and services. This testimony discusses an issue that has not yet
 85 been raised but that is critical to competitive balance: access to the utility
 86 bill for non-affiliated warranty providers. Utility bill access at a fair rate is
 87 extremely important for non-affiliated warranty providers in order to
 88 compete with the utility affiliate.

II.**THE COMPANIES' CONCERNS ABOUT PURCHASE
OF RECEIVABLES ARE ADDRESSED BY IGS'S PROPOSAL**

Q. Did you address Purchase of Receivables ("POR") in your Direct Testimony?

A. Yes. My Direct Testimony, at pages 6 to 30, described the benefits of a POR program for customers and utilities, as well as how a POR program advances Commission policies favoring competition for the mass market. My Direct Testimony also described the essential components of a POR program that would fully realize those benefits

Q. Did the Companies respond to your discussion of POR or your proposal?

A. Yes. Companies' witnesses Mr. Schott and Mr. McKendry both responded to my discussion of POR.

Q. Did anything in Mr. Schott or Mr. McKendry's Rebuttal Testimony change your opinion about POR?

A. Nothing in the Companies' testimony changed my opinion regarding the value of a POR program to customers, the utility, and the competitive market. My Direct Testimony explains why POR is a pro-competitive, well-recognized program for encouraging mass market competition. Nothing in Mr. Schott's or Mr. McKendry's Rebuttal Testimony seriously challenges those conclusions. However, for whatever reason, the Companies vigorously resist the recommendation that the Commission direct the Companies to implement a

112 POR program in this proceeding. My testimony clears up the Companies'
113 misunderstandings and misconceptions.

114

115 **Q. Has IGS changed its recommendation regarding POR?**

116 A. Yes. Although POR is a critical tool to encouraging a competitive market for
117 residential customers, IGS is withdrawing its recommendation that the
118 Commission direct the Companies to institute a POR program. As explained in
119 my Direct Testimony, IGS does not recommend a POR program be implemented
120 in this proceeding without utility support for such a program. POR programs are
121 best created through a collaboration in which the utility supports POR. Given the
122 Companies' current position on POR, the time constraints inherent in rate case
123 proceedings, and IGS's desire to work with the Companies to construct a
124 workable POR program, IGS withdraws its request that a POR program be
125 developed in this docket. Nevertheless, it is important that the Companies'
126 misconceptions regarding POR be addressed, to be able to place the efforts to date
127 into an appropriate context.

128

129 **Q. What is the first misconception regarding IGS's POR proposal that you**
130 **identified in the Companies' Rebuttal Testimony?**

131 A. The first misconception is that the POR program outlined in my Direct Testimony
132 is the same as the POR proposal that was advanced and rejected in the
133 Companies' 2007 Rate Case. (See NS-PGL Ex. 17.0 at 23:488-495.) However,
134 the POR program proposed in the Companies' 2007 Rate Case lacked a discount

rate, and there was insufficient evidence presented to enable the Commission to set a discount rate. (*See* ICC Docket Nos. 07-0241/-0242 (cons.) Final Order dated February 5, 2008 at 306-307.) Importantly, the Commission did not reject the concept of POR the Companies' 2007 Rate Case; rather, it rejected a POR program when there was not an evidentiary record to establish how the POR program would ensure full cost recovery for the Companies. The Commission concluded: "the evidentiary record is insufficient to establish either an appropriate discount or an increased revenue requirement associated with a POR tariff." (*Id.* at 307.)

IGS's proposal in the current docket included the possibility of a discount rate, and emphasized that any POR program must be financially neutral for the utility. (*See, e.g.,* IGS Ex. 1.0 at 22:522-26:610.) The Companies had the opportunity to present evidence that the POR proposal would not allow the Companies to fully recover their costs, and propose alternative mechanisms to ensure full recovery. The Companies chose not to do so. Further, since 2007, utilities in Illinois now benefit from legislation that enables the utilities to recover uncollectables through uncollectible riders, which by law can include the uncollectables of a competitive commodity supplier purchased through a receivables purchase program. Therefore, any uncollectables concern that may have existed in 2007 is no longer a concern that can legitimately be advanced in 2011.

156 **Q. Given that background, was the Companies reference to the 2007 Rate Cases**
157 **an appropriate basis for the Companies to reject advancing POR in this**
158 **proceeding?**

159 A. No. The bottom line is that the POR program that IGS proposed in this
160 proceeding was materially different than the POR program at issue in the 2007
161 Rate Case. The issue that the Commission identified in response to the POR
162 proposal in the 2007 case -- the lack of a discount rate or appropriate increased
163 revenue requirement -- was specifically addressed in the IGS proposal in this
164 proceeding, which would have allowed for a discount rate as one among several
165 options to ensure full utility cost recovery.

166

167 **Q. Are there any other misconceptions or misunderstandings regarding POR**
168 **contained in the Companies' Rebuttal Testimony that you would like to**
169 **address?**

170 A. Yes. The Companies also asserts that a POR program would "inappropriately
171 interfere with the relationship between the Utilities and the Utilities' customers."
172 (NS-PGL Ex. 17.0 at 24:517-18.)

173

174 **Q. Do you agree with this criticism of POR?**

175 A. No. As an initial matter, there is a highly objectionable implication in the
176 Companies' assertion that the Companies have an exclusive right to a customer
177 relationship, to the exclusion of the ARGs community. That
178 viewpoint fundamentally conflicts with the notion of a competitive market and the

179 participation of ARGSS in that market. Certainly, the Companies' approach is at
180 odds with the historic endorsement of the competitive market by the Commission
181 and the General Assembly. Further, the Companies failed to present any
182 empirical evidence to support this assertion. POR programs have been
183 implemented successfully by gas utilities throughout the country, as well as by the
184 electric utilities in Illinois without any evidence of degradation of the customer
185 experience.

186
187 **Q. Do you have further comments on the Companies' objection?**

188 A. Yes. Although it is somewhat difficult to understand what the Companies mean
189 by asserting that a POR program would "inappropriately interfere with the
190 relationship" of the utilities and customers, the crux of the Companies' assertion
191 appears to be that the Companies do not wish to disconnect or threaten
192 disconnection when a customer is current on utility payments but delinquent on
193 ARGSS payments. (*See* NS-PGL Ex. 17.0 at 24:517-525.) Importantly, this
194 scenario is only possible because the Companies' payment priority procedures
195 allow a customer to generate arrears on the ARGSS portion of the bill but stay
196 current on utility payments. That situation is quite obviously unfair to ARGSS
197 and places them at a competitive disadvantage with the utility. IGS's Direct
198 Testimony addresses this issue at lines 18:429 to 22:517. The issue also was
199 addressed in my testimony provided in the Part 280 proceeding (ICC Docket No.
200 06-0703): the payment priority system leads to a competitive imbalance, where
201 sales customers, but not ARGSS customers, face disconnection for non-payment of

202 commodity charges. (*See, e.g.*, IGS Ex. 1.0 at 39:944-953; ICC Docket No. 06-
203 0703, IGS Exs. 1.0, 2.0, and 3.0.)

204

205 **Q. Will a POR program adversely affect the Companies relationship with**
206 **customers?**

207 A. The Companies have presented no credible evidence that the Companies'
208 relationship with customers would be adversely affected by a POR program.
209 With POR, the Companies remain the billing agent for all customers and remain
210 the point of contact in the event of a natural gas emergency or disruption of
211 service. Further, the Companies have not explained how disconnecting sales
212 customers, whom the Companies are authorized to disconnect for non-payment,
213 improves the utility-customer relationship. Similarly, the Companies have not
214 explained how disconnecting customers who are in arrears on the non-commodity
215 portion of their utility bill improves the utility-customer relationship. Simply
216 stated, the same disconnection procedures that are in place for sales customers
217 should be employed for Choices For You customers; the utility-customer
218 relationship should be the same, and the consequences for non-payment should be
219 the same, regardless of the customer's commodity supplier.

220

221 **Q. Is the position of the Companies in this proceeding consistent with positions**
222 **taken by the Companies in other cases?**

223 A. The Companies' position in this proceeding appears to be inconsistent with the
224 position previously taken by the Companies. For example, within the context of

the ongoing Part 280 proceeding, the Companies advocated in favor of a rule that would allow utilities to disconnect all customers in a multi-residence building under certain circumstances, even when most residents are current on payments. (*See, e.g.*, ICC Docket No. 06-0703, NS-PGL Ex. VG-1.0 at 11:218-14:299 (discussing proposed 83 Ill. Admin. Code 280.140; NS-PGL Ex. JR-2.0 at 40:879-44:979)) Although IGS takes no position on this particular issue, the practice of disconnecting an entire building full of paying customers for the non-payment of a single customer would seem to do much more damage to the relationship between the Companies and the Companies' customers than disconnecting customers for their failure to pay commodity receivables that the Companies purchased.

In short, although the Companies have a relationship with their customers, that relationship, in and of itself, does not form a credible basis to reject a POR program that would be competitively neutral and that would make the advantages of the competitive market more accessible to a larger set of Illinois customers while ensuring cost recovery for the utilities.

Q. Are there any other misconceptions or misunderstandings regarding POR that you would like to address?

A. Yes. The Companies also assert that the POR proposal would “inappropriately shift[] risks from alternative gas suppliers to the Utilities and the Utilities' customers.” (NS-PGL Ex. 17.0 at 24:511-512.)

248 **Q. Do you agree that a POR program inappropriately would shift risks to the**
 249 **Utilities?**

250 A. No. The Companies failed to explain how risk would shift to the Companies from
 251 the ARGSSs, although he hints that if ARGSSs stopped performing credit checks,
 252 the Companies would suffer. (See NS-PGS Ex. 17.0 at 512-516.) However, this
 253 suggestion does not account for two basic facts about competitive utility service:

254 *First, the Companies have existing service obligations.* Because the
 255 Companies must remain the provider of last resort and must provide sales
 256 service to all qualified customers who do not elect an ARGSS, there is a
 257 fixed number of “credit risk” customers. In the absence of a POR
 258 program, customers who are a credit risk would either be unable to get
 259 ARGSS service or would be promptly dropped for non-payment, subject to
 260 the terms of the customer’s contract with the ARGSS, and thus would
 261 remain with the utility. With a POR program, the credit risk customer
 262 would have an incentive to choose the supplier (whether the Companies or
 263 an ARGSS) with the lowest price, generally leading to less uncollectables
 264 for that customer.

265 *Second, there is full utility recovery of uncollectable and costs under the*
 266 *POR program.* A properly designed POR program would allow full
 267 recovery of all uncollectable costs, including those related to purchased
 268 receivables. (See, e.g., IGS Ex. 1.0 at 22:522-524, 25:601-26:610
 269 (advocating for 100% utility recovery of purchased receivables).) Thus,
 270 either way, the utility would face the same number of credit risk customers
 271 and collect 100% of uncollectables, whether from sales customers or
 272 purchased receivables. **To be clear: IGS advocates a POR program**
 273 **where the Companies recover 100% of purchased receivables,**
 274 **whether through a discount rate with a true-up mechanism, base rate**
 275 **charges, or any other method to allow exactly 100% (no more, no less)**
 276 **recovery of the utilities’ receivables and prudent costs.**

277 In other words, IGS proposed a POR program where the utility faces zero risk for
 278 its purchased receivables. Any suggestion that POR somehow increases the
 279 number of credit risks that a utility faces, given proper POR program design, is
 280 incorrect.

281

282 **Q. Are there any other misconceptions or misunderstandings regarding POR**
283 **that you would like to address?**

284 A. Yes. The Companies dispute that the Companies have an advantage over ARGS
285 in collecting from customers and managing non-payment risks. (See NS-PGL Ex.
286 17.0 at 24:526-25:534, 25:543-547.)

287

288 **Q. Why do the Companies have an advantage in collecting from customers and**
289 **managing non-payment risks over ARGS?**

290 A. In the absence of a POR program, the Companies have two enormous collections
291 advantages over ARGSS: (1) full recovery of uncollectables through Commission-
292 approved mechanisms, and (2) the threat of disconnection for non-payment.
293 Although the Companies must provide service to qualified customers and are
294 restricted as to when the Companies may disconnect service for non-payment, the
295 Companies are **guaranteed** to receive **full** compensation through Riders UEA and
296 UEA-GC. Although it is also true that ARGSS have the ability under the law to
297 add additional protections (limited, of course, by what the market will bear), as a
298 practical matter in the current market those protections are insignificant compared
299 to guaranteed recovery of all uncollectables or the threat of disconnection.

300

301 **Q. Given those clarifications to the Companies' mischaracterizations or**
302 **misunderstandings regarding the IGS POR proposal, is IGS recommending**
303 **that the Commission require the Companies to institute POR in this docket?**

304 A. No. There is no legitimate doubt that POR is critically important to the
305 competitive market or its benefits to all stakeholders. However, the Companies
306 have strongly resisted seriously addressing POR in this docket, and it is clear that
307 the Companies currently have no genuine interest in working on this issue in a
308 collaborative and cooperative manner that would further encourage development
309 of the competitive market in the manner that the Commission has repeatedly
310 endorsed. Given the confines of the rate case proceeding, there simply is not
311 sufficient opportunity to advance the idea of implementing a POR program in this
312 proceeding. Accordingly, IGS withdraws its recommendation that the
313 Commission institute POR in the present case.

314

315 **Q. What is the impact of IGS withdrawing its recommendation that the**
316 **Commission implement POR in this proceeding?**

317 A. POR is a critical tool to creating an even competitive playing field between the
318 utilities and ARGs. POR resolves many of the inequities that block market entry
319 by ARGs and effectively block market access for residential customers. Since it
320 now is clear that a POR program will not be developed in this proceeding, it is
321 even more vitally important that the Commission require accurate allocation of
322 costs in a manner that levels the competitive playing field to the maximum extent
323 possible. There is a real urgency for the Commission to take a hard look at the

Companies' cost allocation methodology to ensure that costs are charged in a manner that accurately reflects cost causation principles. That item is discussed in the next section of my testimony.

III.

THE COMPANIES SHOULD ALLOCATE ADMINISTRATIVE FEES IN A CONSISTENT MANNER

Q. Did you address administrative fees in your Direct Testimony?

A. Yes. My Direct Testimony addresses two issues related to the Companies' administrative fees. First, the Companies improperly overcharge Choices For You customers by including in the calculation of the administrative fees that are charged to all customers costs for services that do not support Choices For You customers. (*See* IGS Ex. 1.0 at 36:862-44:1043.) Second, Choices for You administrative fees should be charged to all customers who have the opportunity to participate in the Choices For You program. (*See* IGS Ex. 1.0 at 31:728-35:856.) Because IGS is no longer recommending a POR program (and the Companies do not appear interested in instituting one on their own), it is critically important to remove charges that are based on inaccurate cost allocation.

Q. Did the Companies respond to your testimony regarding administrative fees?

A. Yes. Companies witnesses Ms. Grace and Mr. McKendry both provided responses to my Direct Testimony.

347 **Q. Did anything in Ms. Grace or Mr. McKendry's Rebuttal Testimony lead you**
348 **to change your opinions?**

349 A. No. In fact, the Companies' testimony confirmed that the Companies deal with
350 various administrative fees in a manner that is plainly anti-competitive and
351 contrary to cost causation principles. The Companies' testimony reveals an
352 obvious inconsistency between the Companies' approach to (1) administrative
353 fees that are charged to all customers and (2) administrative fees that are charged
354 exclusively to Choices For You customers.

355

356 **Q. How did the Companies develop the administrative fees that they charge**
357 **exclusively to Choices For You customers?**

358 A. Regarding the cost causation analysis for the administrative fees charges
359 exclusively to Choices For You customers, Mr. McKendry stated:

360 In fact, we removed labor costs within the GTS area that are not in
361 support of the transportation services. We also removed revenue
362 amounts that result from trade, pool administrative and Local
363 Distribution Company ("LDC") billing charges. We also
364 differentiated between the large volume transportation programs
365 and the small volume CFY program. The Aggregation Charge,
366 billed to CFY Suppliers under Rider AGG, Aggregation Service,
367 thus includes only costs supporting the CFY program.

368 (NS-PGL Ex. 31.0 at 4:70-75.) On the surface, that statement suggests that the
369 Companies have performed some level of analysis to support their cost allocation
370 approach. That analysis, however, is far from complete, failing to account for
371 numerous additional cost items that should be excluded. (See, e.g., Companies'
372 Response to Data Request IGS 3.05 attached hereto and made a part hereof at IGS

373 Ex. 2.1 (noting “similar” functions, but not describing which functions were
374 overlapping and which ones were not).)¹

375 There needs to be a detailed examination into the causation of **all** of the costs that
376 make up administrative fees and an allocation methodology that only charges
377 those costs to the customers that cause the costs or benefit from the programs.
378 IGS would fully support *all* of the Companies’ administrative fees being subject
379 to rigorous cost causation analysis.

380

381 **Q. Are all of the Companies’ administrative fees currently developed based**
382 **upon thorough application of cost causation principles?**

383 A. No. It does not appear that such rigorous analysis has taken place for the
384 generally applicable administrative fees. In support of the Companies’ assertion
385 that Choices For You customers are not double billed for any services provided
386 under the administrative fees charged to all customers, Companies’ witness Ms.
387 Grace stated:

388 Although CFY customers buy their gas from alternative suppliers,
389 the Utilities continue to provide delivery service as well as storage
390 and balancing services so that the transportation programs can
391 exist. For example, functions associated with initiating service to a
392 customer (such as credit review that is related to deposit
393 requirements) and terminating service apply to all customers.
394 **Credit reporting applies to all customers because customers**
395 **owe the Utilities for delivery service charges and those**
396 **amounts may become uncollectible expenses. Moreover, gas**
397 **supply personnel provide support for securing and managing**

¹ IGS Ex. 2.1 and all other exhibits attached hereto (*i.e.*, Exs. 2.2-2.7) include Data Request Responses received from both of the Companies. In order to be complete, each exhibit includes the Responses from (1) Peoples and (2) North Shore for each referenced Data Request.

398 **the services and assets which underlie storage and balancing**
 399 **services.**

400 (NS-PGL Ex. 28.0 at 42:910-918 (emphasis added).) It is important for the
 401 Commission to understand that even if a service is applicable to all customers
 402 (such as “credit reporting”), the general administrative fees charged to all
 403 customers still could be duplicative of the administrative fees charged to Choices
 404 For You customers (e.g. if there is a “credit reporting “ service included in the
 405 make-up of the Choices For You charge).

406

407 **Q. Do you agree with the Companies’ assertion that these administrative fees**
 408 **are appropriately charged to all customers?**

409 A. No. The Companies’ testimony requires some “unpacking” and further detail to
 410 fully understand what is the Companies are suggesting. For example, with respect
 411 to the last sentence about “supply personnel”, the implication is that the services
 412 that those supply personnel provide are 100% equally applicable to customers
 413 taking supply from the Companies and customers taking supply from ARGSS.

414

415 **Q. What is wrong with the idea that the Companies’ supply personnel perform**
 416 **tasks that exactly equally benefit sales and Choices For You customers?**

417 A. The notion that the Companies’ supply personnel are performing tasks at exactly
 418 the same level to support Choices For You defies common sense, and is not
 419 supported by the Companies’ admission that it does not track the expenses of each
 420 function that comprises its Administrative Fees. (See Companies’ Response to

Data Request IGS 3.06 and 3.08, attached hereto and made a part hereof as IGS Exs. 2.2 and 2.3; *Cf.* IGS Ex. 2.1.)

It is very unlikely that the Companies' supply personnel benefit Choices For You and sales customers equally. For example, the personnel that dedicate time to deciding what contracts to purchase and what hedges, if and when hedges are used, are wholly necessary for Choices For You customers since their commodity purchases and related decisions are a matter of agreement between the customer and supplier. The pricing of the regulated rate is also constructed by personnel at the Companies and has no relevance to a CFY customer, since again the price they pay is a matter of agreement. This is not an exhaustive list, but is illustrative of some of the items that cost creation should not be attributed to CFY customers, under the Companies cost-causation principal espoused for the Administrative Charge, but nonetheless are. While Choices For You and sales customers may receive benefit from storage and balancing services, the Choices For You customers also separately pay an additional charge for the assets used to provide these services, as well as all the costs associated with providing the commodity service to the sales customers. Conversely, since the discrete charge is broken out for Choices For You customers through the administrative charge, sales customers pay for no part of that charge. Therefore, *if* the Companies were to provide a breakdown of the allocation of services to Choices For You and sales customers, it is very likely that the benefit of those services would weigh heavily in the favor of sales customers.

444 **Q. In the absence of specific expense-tracking information, what is the**
445 **significance of the Companies charging exactly the same administrative fee**
446 **(except for commodity uncollectable cost) to choice and sales customers?**

447 A. It must be that the Companies assert that their supply personnel spend at least
448 *some portion* of their time providing services that are equally applicable to
449 customers taking supply from the Companies and customers taking supply from
450 ARGSSs. That begs the question: what portion? Knowing what portion is equally
451 applicable to both sets of customers and which portion is not equally applicable
452 would permit an accurate allocation of the costs generated by those supply
453 personnel. Until the Companies provide that allocation and set charges
454 accordingly, however, it seems clear that, in fact, the Companies are double
455 charging Choices For You Customers for services that those customers do not
456 receive from the Companies.

457

458 **Q. What are the necessary steps if the Companies were to undertake a full**
459 **breakdown of administrative fees and assign costs to the proper causers?**

460 A. If a full unbundling of the costs occurs, it will be necessary to ensure not only the
461 Choices For You customers are properly treated, but also that the larger
462 transportation customer charges will be examined to ensure they are not paying
463 twice for costs, or paying for costs they are not creating. Although IGS is focused
464 on the residential and small commercial markets for purposes of this testimony,
465 the competitive market works best when no customer group is forced to subsidize
466 another customer group.

467

468 **Q. Are there other issues with the Companies' assertion that its general**
469 **administrative fee is appropriately fully charged to Choices For You**
470 **customers?**

471 A. Yes. As explained in my Direct Testimony, without POR, an ARGS cannot
472 effectively sign up or maintain customers that are payment risks. Combined with
473 the fact that utility arrears must be fully paid before an ARGS can see the first
474 dollar paid to its arrears and that utility current charges must be fully paid before
475 an ARGS can see the first dollar on its current charges under current payment
476 priority rules, an ARGS simply cannot afford to keep a customer that is not fully
477 current on utility charges. Thus, the credit charges related to ARGS should be
478 relatively low (and probably close to zero). (*See also* IGS Ex. 1.0 at 38:904-
479 40:953.) The Companies have conceded that they do not track the contribution of
480 choice customers to uncollectable expenses separately, so the Companies have no
481 basis to contradict this statement. (*See* Companies' Responses to Data Request
482 IGS 3.01, attached hereto and made a part hereof as IGS Ex. 2.4.)

483

484 **Q. In their Rebuttal Testimony, the Companies allege that your Direct**
 485 **Testimony “misses the point” with regard to an exchange quoted from the**
 486 **transcript of the 2009 Peoples/North Shore Rate Case (ICC Docket Nos. 09-**
 487 **0166/-0167 (cons.)). Do you agree?**

488 A. No. It appears that the Companies may have missed the point made in my Direct
 489 Testimony. (*See* NS-PGL Ex. 28.0 at 41:901-906.)

490 My Direct Testimony provided the following transcript excerpt of the cross-
 491 examination of Ms. Grace:

492 Q. But it’s appropriate for the Choices For You customers and the
 493 sales customers to pay the same charge for the Company offering
 494 its Call Center?

495 A. And they do.

496

497 Q. I’m sorry, so that’s a yes?

498 A. Yes, they do.

499

500 Q. And that’s appropriate?

501 A. Yes.

502

503 Q. And why is it appropriate for that cost to be spread out over all
 504 customers?

505 A. Because the Call [C]enter services all customers.

506

507 Q. All customers are eligible to call the Call Center?

508 A. And all suppliers are eligible to call Gas Transportation services
 509 and the costs are allocated among suppliers.

510

511 Q. And because all customers are eligible to call the Call Center,
 512 it’s consistent with the cost causation principles that all customers
 513 be charged for the Call Center, right?

514 A. Yes

515 (IGS Ex. 1.0 at 35:830-852 (citing (ICC Docket No. 09-0166/-0167 (cons.)), Tr. at
 516 246:4-247:4.) The point was that although not every customer calls the call center,
 517 the Companies do not restrict call center charges to just those customers who in
 518 fact do call, because every customer benefits from the presence and availability of

519 the call center. (See IGS Ex. 1.0 at 35:853-856.) In other words, the Companies
520 charge costs to all customers who have the opportunity to take advantage of the
521 service generating those costs. This is a straightforward proposition, and it is
522 irrelevant to my point whether or not sales customers call Gas Transportation
523 Services, as suggested in the Companies' Rebuttal Testimony. (See NS-PGL Ex.
524 28.0 at 41:901-906.)

525

526 **Q. Was there anything in the Companies' Rebuttal Testimony that rebutted the**
527 **concern you expressed that there is an inconsistency in the manner in which**
528 **the Companies allocate costs?**

529 A. No. Nothing in the Companies' Rebuttal Testimony changes the fact that for
530 some costs, including customer call centers, the Companies recover costs from
531 customers that do not actually use the associated service but that benefit from the
532 availability of and opportunity to use that service. Costs associated with the
533 Choices For You program should be considered in exactly the same manner. All
534 customers who have the opportunity to use the Choices For You program should
535 pay for the Choices For You program, because that program benefits all of those
536 eligible customers, even though it is likely that less than 100% of those customers
537 will participate in the Choices For You program at the same time. There is
538 nothing odd or unfair about this approach to cost allocation. Indeed, as was clear
539 in the Companies' recent rate cases, the Companies follow this approach with
540 respect to other programs, such as the Companies' energy efficiency program,
541 where costs were allocated to all customers that had the opportunity to take

542 advantage of the program, even though it was clear that less than 100% of
543 customers actually take advantage of the program. (See ICC Docket Nos. 07-
544 0241/-0242 (cons.), Final Order dated Feb. 5, 2008 at 163-4.)

545

546 **Q. Could you summarize your position with respect to administrative fees?**

547 A. The Commission should require the Companies to take a consistent approach to
548 administrative fees -- either take a detailed look into cost causation for every
549 employee and function, or spread the costs across all customers who can avail
550 themselves of the benefits.

551 Ideally, the Companies would break down their costs and assigns that costs only
552 to those customers that cause those costs; however, a simpler and more practical
553 approach to resolve this inconsistency would be to eliminate the administrative
554 charge for both Choices For You and transportation customers, therefore
555 eliminating any need at this time to further unbundle rates. Particularly at this
556 stage of the proceeding, it appears that the latter approach is justified and is
557 equitable to all parties. The Companies have failed to provide detailed cost
558 information so far; at this relatively late stage in the proceeding, it would be
559 prejudicial to the Staff and Intervenors to allow the Companies to present that
560 information without a corresponding opportunity for Staff and Intervenors to
561 respond through testimony.

562

IV.

**THE COMPANIES SHOULD NOT
BE ALLOWED TO SKEW THE COMPETITIVE MARKET
FOR WARRANTY PRODUCTS IN FAVOR OF THEIR AFFILIATE**

Q. Did you address warranty products in your Direct Testimony?

A. No. However, Staff witness Mr. Sackett appropriately raised the issue of warranty products in his Direct Testimony, and Companies' witness Ms. Gregor addressed warranty products in her Rebuttal Testimony. IGS's affiliate, The Manchester Group, LLC ("Manchester"), offers warranty products and services, and accordingly, I have direct knowledge of the warranty product market and the types of issues that are important to the development of that market.

Q. What are warranty products?

A. Warranty products provide customers with protection on the customer-owned portions of utility lines. Utility line warranty products provide repair or replacement service for customers when the customer-owned portion of the utility lines fails due to normal wear and tear, which is typically not covered by the utility or by standard homeowner's insurance. Within the family of utility line protection warranty products, there are a myriad of different iterations of price, coverage, and design, but the essence remains protection against utility line-related damage.

585 **Q. What is the most important factor in ensuring a competitive marketplace for**
586 **warranty products?**

587 A. The most important factor in a properly operating competitive market for
588 warranty products is permitting competitors access to the utility bill, so
589 competitors enjoy the same access to the utility bill that is provided to utility
590 affiliates. In other words, utility affiliates and their competitors should have the
591 same access to using the utility bill to invoice customers for services. All other
592 factors being roughly equal, utility bill option response rates are typically much
593 greater than response rates to the same product offer where direct bill (i.e., non-
594 utility separate billing) is the only option. In other words, under certain
595 circumstances, customers are significantly more likely to purchase the product
596 when it is billed directly through the utility bill than when customers are billed
597 separately from their utility bill. When one competitor in the market has the
598 ability to bill through the utility for the products and others are not permitted, it
599 effectively locks out all other competitors from the market.

600

601 **Q. Do competitors currently have access to the Companies' bill for purposes of**
602 **billing for warranty products?**

603 A. No. Currently, only the Companies' affiliate, Peoples Energy Home Services, has
604 access to the Companies' bill. (See the Companies' Response to Data Request
605 DAS 6.05, attached hereto and made a part hereof as IGS Ex. 2.5; the Companies'
606 Response to Data Request DAS 2.09 Attachment 1, attached hereto and made a
607 part hereof as IGS Exs. 2.6; DAS 2.03, attached hereto and made a part hereof as

608 IGS Ex. 2.7 (noting the Companies provide “billing [and] payment” support for
 609 the affiliate warranty product).) To date, Manchester has not been provided
 610 access to the utilities’ bills.

611

612 **Q. Please explain why it is important for competitors to the utility’s affiliate to**
 613 **have access to the utility bill.**

614 A. Having bill access provides companies with a number of advantages, including
 615 the following:

- 616 • Billing on the utility bill increases the likelihood that a utility customer,
 617 when receiving direct mail and reading its contents, will follow through
 618 and enroll in a product or take advantage of an offer. Customers are much
 619 more likely to purchase a product or service related to their natural gas
 620 service if they will be billed for that service on their utility bill, rather than
 621 on a separate bill. The Companies clearly understand this advantage, and
 622 include this benefit as part of the program affiliate warranty product terms
 623 and conditions. (See IGS Exs. 2.5 and 2.6.)
- 624 • Utility billing simplifies enrollment. In a situation where the customer
 625 will be billed on the utility bill, the customer can be instructed to “send no
 626 money now” and the customer need not provide financial information such
 627 as their checking account number, bank account number, or credit card
 628 number.
- 629 • Billing through an existing utility billing relationship facilitates customer
 630 convenience. A customer need not deal with an additional bill, and the
 631 product charges are communicated as “conveniently billed on your utility
 632 bill.” The Companies use substantially similar language in the terms and
 633 conditions of the affiliated warranty program. (See IGS Exs. 2.6, 2.7.)
- 634 • Utility billing avoids customer confusion. Customers are generally
 635 familiar and comfortable with their utility bill, and being able to place the
 636 charges on the utility bill promotes billing consistency and decreases
 637 potential customer confusion.

638 These four factors, individually and cumulatively, lead to an increased response
 639 rate from customers to whom warranty products are offered.

640

641 **Q. What is the implication of increasing the response rate?**

642 A. Higher response rates lead to lower acquisition costs, which in turn lead to more
643 competitive pricing, because one of the significant costs associated with the
644 product is marketing. Importantly, the possibility of a more competitive price
645 assumes that all providers of a particular product or service have fair and equal
646 access to the utility bill. Unfortunately, this is currently not the case.

647

648 **Q. In addition to lack of universal access to utility billing, are there any**
649 **other structural flaws in the competitive warranty market?**

650 A. Yes. The two other primary issues were raised and thoroughly explained by Staff:
651 (1) the Companies are soliciting on behalf of the affiliate that provides the
652 warranty product; and (2) the Companies are charging a reduced price to the
653 affiliate for repairs. (See Staff Ex. 9.0 at 36:819-38:852, 38:858-865.)

654

655 **Q. Please describe the types of solicitation services provided by the Companies**
656 **to their affiliate that provides warranty products.**

657 A. The Companies' solicitation infrastructure includes three forms of solicitation --
658 solicitation during service applications on the phone, solicitation during service
659 applications online, and a link on the Companies' websites -- identified by Staff
660 and confirmed by the Companies. (See the Companies' Response to Data
661 Request DAS 6.05(a), attached hereto and made a part hereof as IGS Exs. 2.5.)

662

663 **Q. Do you agree with Staff's recommendation that the Commission should**
664 **require the Companies to charge their affiliate for solicitation services?**

665 A. Yes. A necessary step toward developing a competitive market for warranty
666 products would be to eliminate subsidies benefitting the Companies' affiliate.
667 Thus, it is appropriate for the Commission to require the Companies to
668 charge their affiliate for access to solicitation.

669
670 **Q. Is implementing Staff's recommendation regarding charging the utility**
671 **affiliate for solicitation services sufficient to promote the development of a**
672 **competitive market?**

673 A. No. Simply charging the affiliate for the access the Companies provide to their
674 solicitation infrastructure is insufficient because that approach still allows the
675 Companies' affiliate to have unique and irreproducible solicitation opportunities
676 that non-affiliates cannot recreate at any price. For example, if the Companies
677 refuse to allow other providers the opportunity to connect with customers making
678 moving calls, non-affiliates cannot create their own moving calls. In order to
679 create a well-functioning competitive market, the Companies should either allow
680 all competitors equal access to the Companies' solicitation infrastructure on non-
681 discriminatory terms or prevent any warranty provider (whether or not affiliated
682 with the Companies) from accessing the Companies' solicitation infrastructure.
683 In other words, the Companies' affiliate should not benefit from a unique
684 solicitation opportunity that is not reproducible by non-affiliates -- even if the

685 affiliate pays for the opportunity -- such as solicitation during service
686 applications.

687

688 **Q. Was there anything in Companies' Rebuttal Testimony that changes your**
689 **opinions regarding the way in which the Companies provide solicitation**
690 **services to their affiliate?**

691 A. No. The Companies did not offer any testimony regarding the two prerequisites
692 for a competitive market -- non-affiliate access to the utility bill and equal access
693 to solicitation. The Companies did properly acknowledge the need for the
694 Companies' affiliate to pay for solicitation services. (*See* NS-PGL Ex. 21.0 at
695 4:65-67.) However, it is not clear whether the Companies' proposed adjustment
696 better reflects the proper charges than Staff's proposal. The Commission should
697 closely evaluate Staff's response to the Companies' Rebuttal Testimony before
698 making that judgment.

699

700 **Q. Do you agree with Staff's recommendation that the Companies' affiliate be**
701 **forced to pay the same rate for repairs as customers?**

702 A. Yes. Once again, eliminating subsidies is a necessary step for developing a
703 competitive market for warranty products.

704

705 **Q. Do you agree that Staff's recommendation is sufficient to develop a**
706 **competitive market?**

707 A. Although there would be benefits to allowing equal access for all warranty
708 providers to the Companies' repair personnel, the services of the Companies'
709 repair personnel are less unique than, say, the opportunity to advertise on the
710 Companies' website. Thus, although it would help the competitive market to
711 provide equal access on non-discriminatory terms for non-affiliates to the
712 Companies' repair personnel, it is not nearly as critical as access to the utility bill
713 and equal access to solicitation services.

714

715 **Q. Was there anything in the Companies' Rebuttal Testimony that changed**
716 **your opinion?**

717 A. No. The Companies' argument about the proper charge for repair services being
718 fully distributed costs (rather than the rates charged to customers) was not
719 convincing.

720

V.

721

CONCLUSIONS

722 **Q. Please summarize your conclusions.**

723 A. In order to advance the benefits of customer choice to all customers, the
724 Commission should direct the utilities to make two straight-forward changes:

- 725 • **Because the Companies plainly do not support a Purchase of Receivables**
726 **("POR") program, and because an effective POR program that serves the**
727 **best interests of customers and the competitive market requires**
728 **cooperation and support from the utility involved, the recommendation**
729 **that a POR program be implemented in this docket has been withdrawn.**
730 The absence of a POR program heightens the urgency for accurate and

equitable cost allocation in a manner that is transparent and avoids billing Choices For You customers for the Companies' services that provide no benefit to them.

- **Ideally, the Commission would direct Peoples and North Shore to revise their administrative charges to better reflect cost causation principles. However, the simplest solution to the problem is eliminating Choices For You administrative fees.** This solution is particularly appropriate now, given the status of the proceeding and the Companies' failure to provide the necessary cost information up to this point. The Companies should either calculate administrative fees for all programs based either (1) upon rigorous cost causation analysis (as the Companies currently do for the transportation programs), or (2) upon the principle that all customers with the potential to benefit from a service should pay (as the Companies presently do for the administrative fees charged to all customers). Either approach would be acceptable, but in any event, the Commission should require the Companies to take a consistent approach. To the extent that a POR program or Rider UEA-GC not implemented, Choices For You customers should receive a credit for any costs related to collections.
- **The Commission should ensure a competitive market for warranty products by compelling equal access to utility bills and utility solicitation infrastructure.** Without these changes, competitive warranty product suppliers simply will not be able to compete with the utility affiliate, even if the competitive suppliers can offer a superior product.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.